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Benefits Under Railroad Retirement and Social Security

Employers and employees covered by the Railroad Retirement Act pay higher retirement taxes than those covered by the Social Security Act, so that railroad retirement benefits remain substantially higher than social security benefits.

The following questions and answers show the differences in railroad retirement and social security benefits payable at the close of the fiscal year ending September 30, 2000, as well as the differences in age requirements and payroll taxes under the two systems. Railroad retirement benefit amounts reflect cases reduced for any dual benefit entitlement.

1. How do the average monthly railroad retirement and social security benefits paid to retired employees and spouses compare?

The average age annuity being paid by the Railroad Retirement Board at the end of fiscal year 2000 to career rail employees was \$1,760 a month, and for all retired rail employees the average was \$1,350. The average age retirement benefit being paid under social security was about \$815 a month. Spouse benefits averaged \$530 a month under railroad retirement compared to \$400 under social security.

The Railroad Retirement Act also provides supplemental railroad retirement annuities of between \$23 and \$43 a month, which are payable to employees who retire directly from the industry with 25 or more years of service.

2. Are the benefits awarded to recent retirees generally greater than the benefits payable to those who retired years ago?

Yes, because recent awards are based on higher average earnings. For career railroad employees retiring at the end of fiscal year 2000, regular annuity awards averaged about \$2,305 a month

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while monthly benefits awarded to workers retiring at age 65 under social security averaged about \$1,060. If spouse benefits are added, the combined benefits for the employee and spouse would approximate \$3,245 under railroad retirement coverage, compared to about \$1,590 under social security. Adding a supplemental annuity to the railroad family's benefit increases average total benefits for current career rail retirees to about \$3,280 a month.

3. How much are the disability benefits currently awarded?

Disabled railroad workers retiring directly from the railroad industry at the end of fiscal year 2000 were awarded about \$1,980 a month on the average while awards for disabled workers under social security averaged about \$815.

While both the Railroad Retirement and Social Security Acts provide benefits to workers who are totally disabled for any regular work, the Railroad Retirement Act also provides disability benefits specifically for career employees who are disabled for work in their regular railroad occupation. Career employees may be eligible for such an occupational disability annuity at age 60 with 10 years of service, or at any age with 20 years of service.

4. What are the maximum amounts payable to recent retirees?

In 2001, the maximum total monthly benefit initially payable to an employee and spouse under the Railroad Retirement Act is \$4,550. Under the Social Security Act the maximum monthly amount payable to an employee retiring in 2001 at age 65, and his or her spouse, is \$2,304.

However, such maximum benefits are payable to relatively few families, as very few employees consistently earn the maximum amount creditable each year throughout their careers.

5. Can railroaders retire at earlier ages than workers under social security?

Under current law, railroad employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60. Certain early retirement reductions are applied to such annuities awarded before age 62, but only to the portion of the annuity approximating a social security benefit, and no age reductions are applied to the annuities of 30-year employees retiring at age 62. Under social security, a worker cannot begin receiving retirement benefits based on age until age 62, regardless of how long he or she worked, and social security retirement benefits are reduced for retirement prior to full retirement age.

Rail employees with 10 to 29 years of creditable service are eligible for regular annuities based on age and service the first full month they are age 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age—the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security.

Reduced benefits will still be payable at age 62 but the maximum reduction for employees will be 30 percent, rather than 20 percent, by the year 2022. However, the railroad retirement annuity reduction will be less if the employee had any rail service before September 1983. Also, these changes **will not** affect rail employees who retire at age 62 with 30 years' service.

6. Does social security offer any benefits that are not available under railroad retirement?

Social security does pay certain types of benefits that are not available under railroad retirement. For example, social security provides children's benefits when an employee is disabled, retired or deceased. Under current law, the Railroad Retirement Act only provides children's benefits if the employee is deceased.

The Railroad Retirement Act does include a special minimum guaranty provision which ensures that railroad families will not receive less in monthly benefits than they would have if railroad earnings were covered by social security rather than railroad retirement laws. This guaranty is intended to cover situations in which one or more members of a family would otherwise be eligible for a type of social security benefit that is not provided under the Railroad Retirement Act. Therefore, if a retired rail employee has children who would otherwise be eligible for a benefit under social security, the employee's annuity can be increased to reflect what social security would pay the family.

7. How much are monthly benefits for survivors under railroad retirement and social security?

Survivor benefits are generally higher if payable by the Board rather than social security. At the end of fiscal year 2000, the average annuity **being paid** to all aged and disabled widow(er)s averaged \$820 a month, compared to \$770 under social security.

Benefits **awarded** by the Board at the end of fiscal year 2000 to aged and disabled widow(er)s of railroaders averaged about \$1,020 a month, compared to about \$675 under social security.

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The annuities **being paid** at the end of fiscal year 2000 to widowed mothers/fathers averaged \$1,030 a month and children's annuities averaged \$680, compared to \$570 and \$530 a month for widowed mothers/fathers and children, respectively, under social security.

Those **awarded** at the end of fiscal year 2000 were \$1,085 a month for widowed mothers/fathers and \$915 a month for children under railroad retirement, compared to \$585 and \$545 for widowed mothers/fathers and children, respectively, under social security.

8. How do railroad retirement and social security lump-sum death benefit provisions differ?

Both the railroad retirement and social security systems provide a lump-sum death benefit. The railroad retirement lump-sum benefit is generally payable only if survivor annuities are not immediately due upon an employee's death. The social security lump-sum benefit may be payable regardless of whether monthly benefits are also due. Both railroad retirement and social security provide a lump-sum benefit of \$255. However, if a railroad employee completed 10 years of service before 1975, the average railroad retirement lump-sum benefit payable is about \$940.

The social security lump sum is generally only payable to the widow or widower living with the employee at the time of death. Under railroad retirement, if the employee had 10 years of service before 1975, and was not survived by a living-with widow or widower, the lump sum may be paid to the funeral home or the payer of the funeral expenses.

The railroad retirement system also provides, under certain conditions, a residual lump-sum death benefit which insures that a railroad family receives at least as much in benefits as the employee paid in railroad retirement taxes before 1975. This benefit is, in effect, a refund of an employee's pre-1975 railroad retirement taxes, after subtraction of any benefits previously paid on the basis of the employee's service. However, an employee's benefits generally exceed taxes within two years; consequently, this death benefit is seldom payable.

9. How do railroad retirement and social security taxes compare?

Railroad retirement tier I and Medicare taxes on employees and employers are the same as social security taxes, with a rate of 7.65 percent, consisting of 6.2 percent on earnings up to \$80,400 in 2001 and 1.45 percent for Medicare hospital insurance on all earnings. Rail employees pay an additional tier II tax of 4.90 percent on earnings up to \$59,700 in 2001, while their employers pay tier II

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taxes of 16.10 percent. Rail employers also pay a separate work-hour tax to finance the railroad retirement supplemental annuity program. The rate is determined quarterly and has been set at 26 cents per work hour through March 2001.

10. How much are regular railroad retirement taxes for an employee earning \$80,400 in 2001 compared to social security taxes?

The maximum amount of regular railroad retirement taxes that an employee earning \$80,400 can pay in 2001 is \$9,075.90, compared to \$6,150.60 under social security. For railroad employers, the maximum annual regular retirement taxes on an employee earning \$80,400 are \$15,762.30 compared to \$6,150.60 under social security. Employees earning over \$80,400, and their employers, will pay more in retirement taxes than the above amounts because the Medicare hospital insurance tax is applied to all earnings.

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